Fiscal Note 2011 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0299		**Title:**	Tax credit for hearing aid purchase
Primary Sponsor:	Kottel, Deborah		**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	($1,081,280)	($1,081,280)	($1,081,280)	($1,081,280)
Net Impact-General Fund Balance	($1,081,280)	($1,081,280)	($1,081,280)	($1,081,280)

Description of fiscal impact: This bill would provide a non-refundable income tax credit to cover up to $500 of the cost of a hearing aid for a taxpayer who is age 55 or older or for a taxpayer's dependent, regardless of age. A credit could be claimed for buying a hearing aid for any individual once every five years.

FISCAL ANALYSIS

Assumptions:

1. This bill would provide a non-refundable income tax credit to cover up to $500 of the cost of a hearing aid. Taxpayers age 55 or older would be eligible to claim the credit for buying a hearing aid for themselves. Any taxpayer would be eligible to claim the credit for buying a hearing aid for a dependent. The credit could be claimed for buying a hearing aid for the same individual no more than once in five years. The credit would first be available for tax year 2009.
2. Montana has approximately 249,000 residents age 55 or older and approximately 251,000 residents under age 20 (U.S. Census Bureau).
3. Of the national population 55 or older, 33% have some degree of hearing loss and 12% use a hearing aid. Of the population under 20, about 2% have some degree of hearing loss (Centers for Disease Control).
4. This fiscal note assumes that the proportions of the population 55 and over and 19 and under that have a hearing loss and use a hearing aid is the same in Montana as nationally. It also assumes that the

proportion of persons with a hearing loss who have a hearing aid is the same for the population age 19 and under as for the population 55 and older.

5. There are 29,880 Montanans age 55 or older with hearing aids (12%×249,000) and 1,825 Montanans age 19 or younger with hearing aids ((12%/33%)×2%×251,000).
6. The proposed credit could be claimed for an individual once every five years. Therefore, it is assumed that credits would be claimed for one-fifth of the eligible persons each year. There would be 5,976 credits claimed by taxpayers age 55 or older (29,880 / 5) and 365 credits claimed for dependents (1,825 / 5).
7. The average cost of a hearing aid is $1,800 (Better Hearing Institute). The cost of a hearing aid is deductible as a medical expense under current law. This bill would not allow a taxpayer to take both the deduction and the proposed credit.
8. The net effect on a taxpayer of taking the proposed credit instead of an itemized deduction is the difference between the credit the taxpayer could claim and the tax reduction from taking the itemized deduction. Since the credit would be non-refundable, the credit a taxpayer could claim is the smaller of the taxpayer's tax liability and $500. The tax reduction from taking the itemized deduction is the smaller of the taxpayer's tax liability and the product of the taxpayer's marginal tax rate and the amount of the deduction.
9. Taxpayers can be divided into three groups based on how their tax liability would be affected by taking the proposed credit instead of an itemized deduction. Taxpayers with tax liability of $100 or less generally would have their tax reduced to $0 by taking either the credit or the deduction. Taxpayers with tax liability between $101 and $500 would have their tax reduced to $0 by the credit and would have their tax reduced, but not to $0, by the deduction. Taxpayers with tax liability more than $500 would have their tax reduced by $500 by the credit and by a smaller amount by the deduction.
10. Income tax returns for 2007 were examined for two groups of resident taxpayers: those who appear to be retired because they claimed an extra exemption and reported some type of retirement income and those who claimed at least one dependent. The following table shows the percent of each group in each of the three tax liability groups, the average tax liability of each group, and the tax rate bracket for the average taxpayer in each group:

	Tax Liability $100 or Less			**Tax Liability $101 to $500**			**Tax Liability More Than $500**		
	% of Group	Avg. Tax Liability	Avg. Tax Bracket	% of Group	Avg. Tax Liability	Avg. Tax Bracket	% of Group	Avg. Tax Liability	Avg. Tax Bracket
Retirees	50%	$8	1%	11%	$257	5%	39%	$5,028	6.90%
With Dependents	24%	$14	1%	15%	$281	5%	62%	$3,627	6.90%

11. For each of the groups in the previous table, the following table shows the average tax reduction from claiming the credit, the average tax reduction from taking an itemized deduction of $1,800, and the net tax reduction from taking the credit rather than the itemized deduction:

	Tax Liability $100 or Less			**Tax Liability $101 to $500**			**Tax Liability More Than $500**		
	From Credit	From Deduction	Net	From Credit	From Deduction	Net	From Credit	From Deduction	Net
Retirees	$8	$8	$0	$257	$90	$167	$500	$124	$376
With Dependents	$14	$14	$0	$281	$90	$191	$500	$124	$376

12. The total reduction in tax liability is calculated by multiplying the average net reduction for each group by the number of credits claimed for members of the group, which is found by multiplying the percentage in assumption 10 by the number of potential credits for taxpayers age 55 and older and for dependents in assumption 6. This is shown in the following table:

	Tax Liability $101 to $500			Tax Liability More Than $500			Total
	Number of Credits	Avg. Tax Reduction	Total Tax Reduction	Number of Credits	Avg. Tax Reduction	Total Tax Reduction	Total Tax Reduction
Age 55+	657	$167	$109,719	2,330	$376	$876,080	$985,799
Dependents	55	$191	$10,505	226	$376	$84,976	$95,481
Total							**$1,081,280**

13. The credit would first be claimed on tax returns for tax year 2009, filed in FY 2010.
14. The new tax form and changes to existing tax forms required by this bill will be made as part of the annual update process with no additional costs to the Department of Revenue.

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Fiscal Impact:				
Revenues:				
General Fund (01)	($1,081,280)	($1,081,280)	($1,081,280)	($1,081,280)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($1,083,280)	($1,081,280)	($1,081,280)	($1,081,280)

Technical Notes:

1. The term “dependent” does not have a general definition in Title 15. It is defined in the context of income tax exemptions in 15-30-112. The bill should refer to “dependents as defined in 15-30-112”. Alternatively, the bill could reference the definition of dependent in the IRS code at 26USC152.

Sponsor’s Initials	*Date*	*Budget Director’s Initials*	*Date*